The Manitoba Hydro-Electric Board

Quarterly Report

for the nine months ended
December 31, 2016

Comments by **The Chair of the Board** and by **The President and Chief Executive Officer**

Financial Overview

Manitoba Hydro's consolidated net loss was $26 million for the first nine months of the 2016-17 fiscal year compared to nil net income for the same period last year. The increase in the net loss is primarily attributable to higher expenses such as finance costs, capital taxes and depreciation partially offset by higher extraprovincial and domestic electricity revenues.

The consolidated net loss was comprised of an $18 million loss in the electricity segment, a $17 million loss in the natural gas segment and a $9 million net profit in other segments.

The loss in both the electric and natural gas sectors is expected to be recouped over the winter heating season. Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income is forecast to reach approximately $50 million by March 31, 2017. This forecast is based on the continuation of current water flow and export market conditions and the assumption of normal winter weather.

The Manitoba Hydro-Electric Board continues its work addressing the financial challenges identified in its review conducted last summer and outlined in the report issued in September 2016. The Board remains focused on developing an updated financial plan that will address the structural financial challenges facing Manitoba Hydro.

Electric Segment

Revenues from electricity sales within Manitoba totaled $1 004 million for the nine-month period, which was $18 million or 1.8% higher than the same period last year. The increase in domestic revenue was primarily attributable to customer growth as well as the electricity rate increase effective August 1, 2015 and higher customer usage partially offset by lower weather-related consumption. Extraprovincial revenues of $358 million were $23 million or 6.9% higher than the same period last year reflecting higher dependable sales volumes partially offset by lower export prices on opportunity sales. Energy sold in the export market was 8.9 billion kilowatt-hours compared to 8.4 billion kilowatt-hours sold in the same period last year. Other revenues of $21 million were $4 million or 16% lower than the same period last year primarily due to the recognition of interconnection study revenue in the prior year.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $1 411 million for the nine-month period, an increase of $64 million or 4.8% higher than the same period last year. The increase was primarily the result of a $30 million increase in net finance expense, a $12 million increase in capital and other taxes, a $10 million increase in depreciation and amortization expense and an $8 million increase in fuel and power purchased. The increase in net finance expense was primarily

as a result of the impact of the weakening Canadian dollar resulting in realized foreign exchange losses on U.S. debt. In addition, there were higher volumes of long-term debt to finance capital expenditures, partially offset by lower interest rates. Capital and other taxes increased as a result of additional debt borrowings required for major capital development. The increase in depreciation and amortization is primarily attributable to new additions to plant being placed into service. The increase in fuel and power purchases is primarily due to additional dependable wind purchases resulting from higher wind generation as well as an increase in U.S. transmission rates.

The net loss before net movement in regulatory balances is $74 million. After considering the net movement of $46 million in the regulatory deferral balances, there is a net loss of $28 million of which $18 million is attributable to Manitoba Hydro and $10 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2016-17 fiscal year.

Expenditures for capital construction for the nine-month period amounted to $1 960 million compared to $1 614 million for the same period last year. Expenditures for the current period included $840 million for the Bipole III reliability project and $691 million related to construction of the Keeyask project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $35 million for electric Power Smart programs.

Natural Gas Segment

The net loss in the natural gas segment was $17 million for the nine-month period compared to a $20 million net loss for the same period last year. Revenue, net of cost of gas sold (net revenue), was $99 million which was $4 million higher than the same period last year. The increase in net revenue was largely the result of higher customer usage, colder weather which increased the heating load as well as customer growth. Delivered gas volumes were 1 213 million cubic metres compared to 1 131 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $109 million which is comparable to the same period last year.

The net loss before net movement in regulatory balances is $11 million. After considering the net movement of $6 million in the regulatory balances, there is a net loss of $17 million.

Capital expenditures in the natural gas segment were $47 million for the current nine-month period compared to $31 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $7 million for gas Power Smart programs.

Other Segments

The other segments include Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. The net income was $6 million in other segments for the nine-month period compared to net income of $8 million for the same period last year. Revenue was $46 million which was $4 million lower than the prior period. Expenses attributable to other segments amounted to $40 million which was $2 million lower than the same period last year.

There is also a $3 million profit impact in adjustments and eliminations as a result of the requirement to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

Natural Gas Rate Decrease

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers decreased on November 1, 2016 by 9.9% or approximately $78 per year. Rate changes for larger volume customers ranged from decreases of 10.4% to 17.0% depending on the customer class and consumption levels.

The bill impacts are primarily the result of changes in the price that Manitoba Hydro pays for natural gas from Alberta and also reflects the expiry of rate adjustments associated with the recovery of gas costs from prior periods.

First Transformers Arrive at Riel Converter Station

On November 29, 2016, the first transformers arrived by rail at the new Riel Converter Station east of Winnipeg. The shipment required the temporary overnight closure of Provincial Trunk Highway 15 west of Provincial Road 207 and east of the Perimeter Highway to allow for installation of a temporary rail crossing as Manitoba Hydro moved the large electrical equipment.

The transformers, each weighing approximately 250 000 kilograms (250 tonnes), are required at both Riel and the Keewatinohk Converter Station near Gillam. The first transformer shipment arrived at Keewatinohk (1 500 kilometres north of Winnipeg) in early December. The two new converter stations link the Bipole III Transmission Project to Manitoba Hydro's northern generating stations and the province's electricity distribution system.

Each converter station will have a total of 10 high voltage, direct current (HVDC) converter transformers delivered by dedicated rail cars over the next year. Additional shipment dates are to be determined from January 2017 to January 2018. The converter transformers are manufactured by Siemens AG in Nuremberg, Germany as part of the scope of supply from the consortium between Siemens Canada and Mortenson Construction.

Starting in early 2017, additional components for four synchronous condensers will be delivered by rail to the Riel Converter Station. Synchronous condensers stabilize the high-voltage system at the Riel Converter Station. These components each weigh up to approximately 180 000 kilograms (180 tonnes).

A consortium of Voith Hydro and Stuart Olson is responsible for the supply of this equipment. The transformers and synchronous condensers are integral to the Bipole III Transmission Reliability Project and the delivery of renewable hydroelectricity from Manitoba Hydro's northern generating stations to customers in southern Manitoba.

Presidential Permit for Minnesota Power's Great Northern Transmission Line

On November 16, 2016, Minnesota Power's Great Northern Transmission Line received federal approval when the U.S. Department of Energy issued a Presidential Permit authorizing construction of the international transmission line.

The Presidential Permit was the final major regulatory approval needed for construction to begin in the United States on the transmission line to deliver 383 megawatts of clean energy from Manitoba Hydro to Minnesota while strengthening reliability of the regional power grid.

The Great Northern Transmission Line (GNTL) is a crucial part of Minnesota Power's Energy Forward strategy of balancing renewable and traditional energy sources. Minnesota Power, an ALLETE Inc. company, provides electric service to 145 000 customers, 16 municipalities and some of the largest industrial customers in the U.S. within a 26 000 square-mile area in Northeastern Minnesota.

Construction on the 360-kilometre GNTL is expected to start in early 2017 and is to begin delivering renewable hydropower purchased from Manitoba Hydro to Minnesota Power's system beginning in 2020. The GNTL is to run from Grand Rapids, Minnesota to the international border. In June 2016, a White House press release on the North American Climate, Clean Energy and Environment Partnership calling on the U.S., Mexico and Canada to generate 50 per cent of electricity from renewable resources by 2025, cited the GNTL as one of the cross-border transmission projects that will help achieve that goal.

Regulatory hearings for the Manitoba portion of the 500-kilovolt transmission line, the 213 kilometre Manitoba-Minnesota Transmission Project (MMTP), are to begin in 2017. The MMTP is to originate at the Dorsey Converter Station near Winnipeg and extend to the international border.

The MMTP will allow Manitoba Hydro to fulfill current export sales agreements and increase access to markets in the U.S., supporting export sales that keep rates lower for Manitobans. MMTP will also double Manitoba Hydro's ability to import electricity from the U.S., helping to ensure a reliable supply of energy is available to customers in the event of an emergency such as a prolonged drought or unforeseen equipment failure.

Hydro CEO Kelvin Shepherd, Mayor Brian Bowman and Winnipeg Fire Paramedic Service Mark 1926 Tragedy

On December 23, 2016, representatives of Manitoba Hydro, Winnipeg City Hall, the Winnipeg Fire Paramedic Service (WFPS) and the United Fire Fighters of Winnipeg (UFFW) gathered outside the new downtown Adelaide Station to commemorate the 90th anniversary of one of the city's most tragic fires.

Fire destroyed the former Winnipeg Theatre at the corner of Adelaide Street and Notre Dame Avenue in 1926, killing four firefighters and injuring nine. It remains the worst loss of life in WFPS history. The Winnipeg Theatre stood on the site of Manitoba Hydro's under-construction Adelaide Station.

At the December 23rd event, Kelvin Shepherd, President & CEO of Manitoba Hydro, Winnipeg Mayor Brian Bowman, Christian Schmidt, Deputy Chief of the WFPS and UFFW President Alex Forrest, laid a wreath outside Adelaide Station in memory of the firefighters killed and injured.

To further observe the Winnipeg Theatre fire, Manitoba Hydro, the WFPS and UFFW are developing a commemorative plaque to display on Adelaide's exterior wall.

The in-service date for Adelaide Station is spring 2020. Adelaide will serve downtown Winnipeg with electricity for the next 75 years or more, and replaces the aging King Street Station, which was built in 1910.

H. Sanford Riley
Chair of the Board

Kelvin Shepherd, P. Eng.
President and
Chief Executive Officer
February 14, 2017

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2016	**2015**	**2016**	**2015**
Revenues				
Domestic – Electric	1 004	986	382	366
– Gas	201	206	106	109
Extraprovincial	358	335	112	91
Other	63	69	24	26
	1 626	1 596	624	592
Expenses				
Cost of gas sold	103	112	61	56
Operating and administrative	452	447	150	149
Finance expense (net)	468	438	154	153
Depreciation and amortization	305	294	102	98
Water rentals and assessments	96	93	34	32
Fuel and power purchased	99	90	37	33
Capital and other taxes	104	92	35	30
Other expenses	75	82	28	33
	1 702	1 648	601	584
Net income (loss) before net movement in regulatory balances	(76)	(52)	23	8
Net movement in regulatory balances	40	43	17	6
Net Income (Loss)	(36)	(9)	40	14
Net income (loss) attributable to:				
Manitoba Hydro	(26)	-	44	17
Non-controlling interest	(10)	(9)	(4)	(3)
	(36)	(9)	40	14

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at December 31	As at December 31
	2016	**2015**
Assets		
Current assets	1 345	1 541
Property, plant and equipment	18 917	16 616
Non-current assets	685	588
Total assets before regulatory deferral balance	20 947	18 745
Regulatory deferral balance	536	454
	21 483	19 199
Liabilities and Equity		
Current liabilities	1 206	1 226
Long-term debt	15 871	13 880
Other long-term liabilities	1 592	1 535
Deferred revenue	614	517
Non-controlling interest	160	135
Retained earnings	2 801	2 779
Accumulated other comprehensive loss	(822)	(896)
Total liabilities and equity before regulatory deferral balance	21 422	19 176
Regulatory deferral balance	61	23
	21 483	19 199

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2016	**2015**	**2016**	**2015**
Operating Activities				
Cash receipts from customers	1 632	1 667	533	552
Cash paid to suppliers and employees	(769)	(733)	(281)	(191)
Net interest	(388)	(368)	(38)	(34)
	475	566	214	327
Financing Activities	1 362	1 669	76	926
Investing Activities	(2 068)	(1 733)	(645)	(638)
Net increase (decrease) in cash	(231)	502	(355)	615
Cash at beginning of period	956	494	1 080	381
Cash at end of period	725	996	725	996

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2016	**2015**	**2016**	**2015**
Net Income (Loss) attributable to Manitoba Hydro	(26)	-	44	17
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(61)	(168)	(41)	(61)
Items that have been reclassified to income				
Realized foreign exchange (gains) losses on debt in cash flow hedges	15	(8)	5	1
	(46)	(176)	(36)	(60)
Comprehensive Income (Loss) attributable to Manitoba Hydro	(72)	(176)	8	(43)

Segmented Information

In Millions of Dollars (Unaudited)	Electric Segment		Natural gas segement		All other segments		Eliminations		Total	
Nine Months Ended December 31	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	1 383	1 346	202	208	46	50	(5)	(8)	1 626	1 596
Expenses	1 457	1 396	213	222	40	42	(8)	(12)	1 702	1 648
Net income (loss) before net movement in regulatory balances	(74)	(50)	(11)	(14)	6	8	3	4	(76)	(52)
Net movement in regulatory balances	46	49	(6)	(6)	-	-	-	-	40	43
Net Income (Loss)	(28)	(1)	(17)	(20)	6	8	3	4	(36)	(9)
Net income (loss) attribute to:										
Manitoba Hydro	(18)	8	(17)	(20)	6	8	3	4	(26)	-
Non-controlling interest	(10)	(9)	-	-	-	-	-	-	(10)	(9)
	(28)	(1)	(17)	(20)	6	8	3	4	(36)	(9)
Three Months Ended December 31										
Revenue	502	466	107	111	16	18	(1)	(3)	624	592
Expenses	491	481	99	93	13	15	(2)	(5)	601	584
Net income (loss) before net movement in regulatory balances	11	(15)	8	18	3	3	1	2	23	8
Net movement in regulatory balances	18	19	(1)	(13)	-	-	-	-	17	6
Net Income (Loss)	29	4	7	5	3	3	1	2	40	14
Net income (loss) attribute to:										
Manitoba Hydro	33	7	7	5	3	3	1	2	44	17
Non-controlling interest	(4)	(3)	-	-	-	-	-	-	(4)	(3)
	29	4	7	5	3	3	1	2	40	14
Total assets	20 899	18 664	722	704	83	70	(221)	(239)	21 483	19 199

Generation and Delivery Statistics

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2016	**2015**	**2016**	**2015**
Electricity in gigawatt-hours				
Hydraulic generation	26 608	25 843	9 317	8 641
Thermal generation	32	51	13	35
Scheduled energy imports	31	51	20	29
Wind purchase (MB)	720	645	286	240
Total system supply	27 391	26 590	9 636	8 945
Gas in millions of cubic metres				
Gas sales	670	614	406	366
Gas transportation	543	517	198	201
	1 213	1 131	604	567

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